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Expert Group on Trade and Aid Studies

A NOTE ON THE NIGERIAN DEVELOPMENT PLAN STUDY

1. The time available to the Expert Group on Trade and Aid Studies being severely limited, the discussion of the Nigerian Development Plan Study must concentrate on a few issues only. This note is a summary of those issues which the secretariat considers to be the most important ones.

2. In recent weeks additional information about the Nigerian economy has become available which could no longer be fully incorporated into the main document. This new information does nowhere contradict the main conclusions of the study; on the contrary, it makes it possible to formulate several of them more incisively. The second purpose of this note is therefore to bring the most relevant additional data to the attention of the Expert Group.

3. Following the outline of the Nigerian Development Plan Study, the most important issues, and the new information relevant to them, can best be summarized under three headings:

- (a) Investment Programmes and their Financing
- (b) Export Production
- (c) Access to Markets and Export Marketing.

A. Investment programmes and their financing

4. The Progress Report 1964 on the National Development Plan, issued in Lagos in April 1965, reached Geneva a few weeks ago. Besides the actual progress report, this well prepared document contains additional information on the planning methods used in Nigeria, and a revised version of the national income accounts for the years 1957-1962, i.e. the four years preceding, and the first year of the present Plan period. This revision in particular has an important bearing on the main targets and postulates of the Plan.

5. When the Plan was being drawn up, it was believed that gross investment had already attained a level corresponding to 15 per cent of gross domestic product. During the six years of the Plan period, gross investment was expected merely to maintain this ratio. The revised estimates of national income indicate, however, that in 1962 and the years immediately preceding, gross investment corresponded to

only 12-13 per cent of gross domestic product. According to a recent report, "Economic and Functional Analysis of Government Accounts" (Federal Statistical Office), the early version of the national income accounts, on which the Plan was based, had similarly over-estimated public consumption. It appears now that in 1961/62 public consumption corresponded to, roughly 6.5 per cent rather than the originally indicated 8.2 per cent of gross domestic product. Private consumption was correspondingly under-estimated.

6. With investment representing a smaller fraction of gross national product than originally believed, the target rate of income growth can be attained only if:

- (a) the rate of gross investment is raised so that the postulated ratio of 15 per cent can be attained on the average, over the Plan period as a whole, or
- (b) the marginal capital output ratio is reduced, through appropriate changes in the composition of investment, below the magnitude underlying the calculations of the original Plan.

On the basis of recent experience, the second alternative would appear to be the more feasible one.

7. Unless additional capital, over and above the originally planned amount, can be received from abroad, the first alternative implies a substantially more rapid growth of domestic savings than was expected in the original version of the Plan. The secretariat performed a series of hypothetical calculations to ascertain the approximate composition of gross domestic product associated with, or required by, various planning postulates. If it is assumed, for example, that gross domestic product would grow by 4 per cent per annum, that the average investment ratio of 15 per cent were to be attained without additional capital inflow, and that public consumption would grow from its lower initial level at the annual rate postulated by the Plan (11.8 per cent), total private consumption could not increase more rapidly than by some 2.7 per cent per annum. Taking account of the population growth, this rate would imply a virtual stagnation in private consumption per head. Even if public consumption grew considerably less rapidly than planned, it does not seem likely that private consumption could be restrained sufficiently to allow the achievement of the desired investment ratio.

8. The Progress Report 1964 indicates that, despite the satisfactory rate of foreign private investment in Nigeria in the first two years of the Plan, total inflow of capital from abroad was so far below the anticipated level that the attainment of the original goal of, roughly, £550 million over the Plan period is now in serious doubt. It certainly cannot be expected that substantial sums over and above this amount could become available in the next four years.

9. The Progress Report also shows, however, that the composition of total gross investment is diverging from the Plan guidelines in a direction which could lead to a lowering of the incremental capital output ratio and thus make possible the attainment of the target rate of growth despite a smaller volume of investment.

Table I

PLANNED AND REALIZED GROSS INVESTMENT

million £, annual averages

	(1) Planned	Per cent	(2) Realized	Per cent	(2) (1)
Private sector	72	37	94	56	1.30
Public sector	125	63	75	44	0.60
Total	197	100	169	100	0.86

The growth trend of private investment had been under-estimated in the Plan. In the period 1957-62, gross private investment grew, in real terms, at the average annual rate of 5 per cent. Since most of the increment was in the form of manufacturing investment, and since public investment did not achieve the planned levels, the marginal capital output ratio appears, from the latest statistics, to have been lower than originally anticipated.

10. The analysis of financial developments in the public sector (paragraphs 25-27 of the Nigerian Development Plan Study, revised) strongly suggests that some, possibly large, cut-backs in public capital programmes will become unavoidable. These revisions should be considered very carefully with the aim of achieving such a distribution of public investment which will support, or at least not counteract, the recent tendency of the capital output ratio to decline.

11. On this general background, three issues call for further discussion. First, what are the reasons for the shortfall in foreign aid and what measures can be taken to remedy it? It is generally maintained that foreign aid releases are held back mainly by delays in the detailed designing, costing and documentation of individual investment projects. Prima facie, the fact that the Nigerian Governments had to accelerate the repatriation of their external reserves, and to draw on internal credit, to finance their investment programmes would seem to belie this explanation. It may be, of course, that the Nigerian Governments apply somewhat more lenient criteria than the aid donors in deciding when a project is sufficiently prepared to be taken in hand. Even if it is so, the appropriate remedy would seem to be in more technical aid directed primarily to project planning. Indeed, the Expert Group on Trade and Aid Studies could take up the question to what extent it is desirable, in the case of Nigeria, to achieve a closer connexion between technical and financial aid, with the latter growing out, so to speak, organically from the former.

12. The second issue of importance relates to the revisions that appear necessary in the public investment programme. Like all African governments, the Nigerian authorities are under increasing pressure to provide social services which often require considerable capital outlay. The second Progress Report already indicates a certain shift in priorities from purely economic (immediately productive) to the so-called social investment projects. It appears, however, that the shortfall in the general availability of public investment finance must be, in the next few years, countered by a thorough re-orientation of the whole public investment programme which will emphasize, on the contrary, the most directly productive projects. One of the fields where large and relatively rapid returns to investment can be achieved is agriculture. It would be useful if the Expert Group on Trade and Aid Studies could devote some attention to the problem of how to engage more foreign capital (in the form of grants and loans as well as equity) in the agricultural development of Nigeria. Since public investment does have some influence on the volume and direction of private investment activity, the public capital programmes should aim at eliciting the maximum of private investment for those sectors of production which earn or directly save foreign exchange. The note on timber (NDPS, Appendix II), for example, outlines several ways in which relatively modest doses of public capital could considerably reduce the production costs in, and attract additional private capital into, the Nigerian wood processing industries. In this context, the Group might also discuss the ways and means by which some of the results expected from the public social investments might be obtained from private and co-operative activity.

13. Finally, the attention of the Expert Group on Trade and Aid Studies is directed to the long-term need to strengthen the revenue system of Nigeria and, in so doing, to achieve a more equitable and economic distribution of the tax burden between export production and other activities. It may be appropriate to discuss, in this context, the applicability of a general sales or turnover tax system; the revenue potential and administrative feasibility of taxing the farm produce brought to municipal markets; the advantages and disadvantages of extending the marketing board system to commodities produced mainly for domestic consumption; and other possible tax measures.

B. Export production

14. It is one of the main conclusions of the Nigerian Development Plan Study that, as far as the expansion of the traditional exports is concerned, most of the problems appear to be concentrated on the production side whereas the problems of developing new exports relate mostly to the accessibility of specific markets and/or to marketing techniques.

15. The Nigerian Development Plan Study concluded that, at least in the intermediate period before the expiry of the Plan, there appeared favourable demand prospects for Nigerian palm produce, and emphasized the urgency of measures to expand that production. The latest market developments lend additional support to that conclusion. As a consequence, in particular, of the declining supply of marine oils, the prices of lauric oils have maintained their strength and appear headed for a further rise.

Table II

INDEX OF SELECTED VEGETABLE OIL PRICES

1959-61 = 100

	Groundnuts	Groundnut oil	Soybean oil	Coconut oil	Palm oil	Palm kernel oil
1962	90.4	86.2	91.7	83.6	91.2	77.4
1963	96.2	84.4	90.1	95.9	94.5	91.2
1964	98.8	99.0	92.5	99.4	101.7	97.4
Jan.-March 1965	113.2	113.2	n.a.	116.1	119.6	114.6 ¹
March 1965	114.1	109.2	121.9	n.a.	127.0	n.a.

¹January-February 1965 only.

Source: FAO, Monthly Bulletins of Agricultural Economics and Statistics.

16. The Expert Group on Trade and Aid Studies is asked to review the possible measures by which the output of this sector of Nigerian agriculture could be expanded. It might be mentioned here that the Ministry of Agriculture of Western Nigeria has instituted a promising research project intended to develop cheap and simple mechanical equipment for the processing of palm produce. Given the general conditions of oil palm cultivation in Nigeria, as described in the Study, appropriate technical assistance which would help to bring this project to a successful speedy conclusion could have an important stabilizing influence on the food-price level and the balance-of-payments position of the country.

17. The Expert Group might also review those conclusions of the Study which relate to the relative advantages for Nigeria of expanding the facilities for the extraction and processing of groundnut oil. The analysis of the general investment situation in paragraphs 7-10 of this note, and the recent evolution of the relative prices of groundnuts and groundnut oil given in Table II will also be relevant in this context.

¹A recent report of the Commonwealth Economic Committee re-emphasizes the remarkable growth of soyabean oil supplies between 1958-64, together with the rapid improvement in sunflower oil supplies both at groundnut oil's expense despite the substantial recovery of the latter since 1960. It is also likely that India's desperate need for foreign exchange could lead to significant exports of groundnut oil again since it is likely to harvest a large crop later this year; the Argentine has also resumed groundnut oil exports.

18. Finally, the Expert Group is asked to devote some attention to the conditions and needs of the Nigerian timber processing industry which the secretariat Study has found to possess substantial development potential. Especially valuable in this respect would be the Group's opinions as to the possibility of inducing the overseas wood-processing industries to establish facilities for partial or complete processing of the Nigerian timber on the extraction sites. In this way, dispensing with the costly transport of logs, the import needs of the overseas industries could be satisfied at a considerable saving. At the same time, the new industries established in Nigeria would supply a rapidly expanding local market.

C. Access to markets and export marketing

19. The Expert Group on Trade and Aid Studies might wish to consider the impact on Nigeria's foreign exchange earnings of tariff policies and other special arrangements affecting Nigeria's exports into the European Economic Community.

20. Another issue to which the Group might wish to direct its attention is the impact of duties differentiating between the degrees of processing of the export commodity on Nigeria's exports at present and, in particular, on the country's efforts to develop exports of manufactured goods.

21. As regards exports of vegetable oleaginous matter from Nigeria, and other less-developed countries, the Expert Group might note, and analyze, the effects on the market of the various non-tariff devices (oil mixing regulations, margarine production taxes, etc.) whose practical effect is to protect and intensify domestic production of fats and oils in the developed countries.

22. The Expert Group on Trade and Aid Studies might wish to review the situation of the market for cocoa, taking into account efforts currently made to work out arrangements for stabilizing the market.

23. The Expert Group could also consider the importance of adequate facilities for the training of specialized export marketing personnel, discussed in the closing paragraphs of the Nigerian Development Plan Study. Any suggestions the Group might have as regards the improvement and intensification of such training and, in particular, the feasibility and appropriate forms of technical assistance to that effect, would be valuable.